

Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 IO-14 ISO-00 AGRE-00 CEA-01 CIAE-00
DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15 STR-05
ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 SOE-01 OMB-01
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-----119201 212145Z /70

R 211530Z DEC 77

FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 3827
USDOC WASHDC
INFO USMISSION GENEVA

UNCLAS SECTION 1 OF 2 BUENOS AIRES 9732

USMTN

E.O. 11652: N/A

TAGS: ETRD, EFIN, AR

SUBJECT: CHANGES IN: A) IMPORT TARIFFS AND REGULATIONS;
B) EXPORT FINANCING SYSTEM AND EXPORT REGULATIONS

REF: A) BUENOS AIRES 7903; B) BUENOS AIRES 4712; C) 76 BUENOS
AIRES 4636

1. IMPORTS: LIBERALIZATION OF IMPORT TARIFFS MENTIONED IN
REFTEL A CONTINUING. RESOLUTION 981 OF THE MINISTRY OF
ECONOMY DATED OCTOBER 10, 1977 HAS LIFTED BAN ON IMPORTS
OF TOMATOES, STRAWBERRIES, YERBAMATE TEA, WHISKY AND
OTHER ALCOHOLIC BEVERAGES, BEAVER AND OTHER RAW
FURS, TANNED AND PROCESSED FURS, AND ARTIFICIAL FURS.
ALSO, TARIFFS ON OVER 700 PETROCHEMICAL PRODUCTS WERE
REDUCED BY RESOLUTION 1020 OF THE MINISTRY OF ECONOMY,
DATED OCTOBER 21, 1977. THE VAST MAJORITY OF THE TARIFFS
ON DIFFERENT TYPES OF ACIDS, OXIDES AND HYDROXIDES,
CHLORATES AND FLUORIDES, HYDROCARBONS, ORGANIC AND IN-
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ORGANIC COMPOUNDS, DYES AND PIGMENTS, PREPARATIVES,
INSECTICIDES, POLYMER PRODUCTS, RESINS, LUBRICANTS,
PEPTIDES, PERFUMES, AND DISTILLED WATER WERE REDUCED
FROM THE 50 PERCENT - 65 PERCENT RANGE TO 5 - 15 PER-
CENT RANGE. HOWEVER, THE SAME RESOLUTION RAISED TARIFFS
ON SODIUM BISULFITE FROM 5 PERCENT TO 40 PERCENT
AND ON MOST ANIMAL FEEDS WITH CHEMICAL ADDITIVES FROM

5 PERCENT TO 60 PERCENT. ALSO, ALL IMPORT TARIFFS THAT WERE LOWERED TO 5 PERCENT AND 10 PERCENT LEVELS BY EARLIER DECREES HAVE BEEN RAISED AGAIN TO 10 PERCENT AND 15 PERCENT RESPECTIVELY, BY MINISTRY OF ECONOMY RESOLUTION 1168 OF DECEMBER 1. THIS MEASURE HAS AFFECTED MAINLY FOOD AND TOBACCO PRODUCTS.

2. MINISTRY OF ECONOMY RESOLUTION 1150, DATED NOVEMBER 21, 1977, CONTINUES THE SWORN DECLARATION OF IMPORT NEED PROCEDURE DESCRIBED IN REFTEL B THROUGH AT LEAST THE BEGINNING OF 1978. THE RESOLUTION STATES THAT THE LEVEL OF PUBLIC SECTOR IMPORTS IS LIMITED BY THE BUDGET ESTABLISHED THROUGH CONSULTATIONS BETWEEN THE CENTRAL BANK AND THE MINISTRY OF ECONOMY PER CENTRAL BANK CIRCULAR NO.653 OF 9/28/76. ALSO, THE RESOLUTION REQUIRES THAT, EXCEPT FOR CAPITAL GOODS LISTED WITHIN CENTRAL BANK CIRCULAR NO. 641 (REPORTED IN REFTEL C), ALL GOODS FOR WHICH A SWORN DECLARATION OF IMPORT NEED IS ISSUED MUST BE UNLOADED IN ARGENTINA WITHIN SIX MONTHS FOLLOWING THE DATE OF ISSUE OF THE SWORN DECLARATION.

3. EXPORTS: IN ENACTING RESOLUTION 3181 OF OCTOBER 19TH, THE SECRETARIAT OF STATE FOR FOREIGN COMMERCE AND INTERNATIONAL ECONOMIC NEGOTIATIONS HAS ALLOWED UNCLASSIFIED

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MANUFACTURERS OF INDUSTRIAL EXPORTS TO CONTINUE TO DEDUCT 10 PERCENT OF THE FOB VALUE OF THEIR EXPORTS FROM THE TAX ON PROFITS. THIS MEASURE WAS TO HAVE BEEN REPEALED AT THE END OF THIS YEAR, BUT HAS NOW BEEN EXTENDED FOR TWO MORE YEARS.

4. SECRETARY OF AGRICULTURE CADENAS MADARIAGA ANNOUNCED RECENTLY THE LIFTING OF THE BAN ON EXPORTING SUNFLOWER SEED OIL, EFFECTIVE JANUARY 1ST. WHILE REFTEL A NOTED THE LIFTING OF THE BAN ON SUNFLOWER SEED EXPORTS EFFECTIVE MARCH 1ST., IT WAS DECIDED TO ADVANCE THE DATE IN ORDER TO ALLOW THE EXPORT OF SUNFLOWER SEED CURRENTLY BEING HARVESTED IN CHACO PROVINCE WHICH IS EXPECTED TO AMOUNT TO 200,000 TONS.

5. MINISTER OF ECONOMY MARTINEZ DE HOZ HAS ANNOUNCED DECEMBER 6TH THAT THE NEW EXPORT FINANCING SYSTEM TO TAKE EFFECT JANUARY 1ST IN PLACE OF THE CURRENT TEMPORARY MEASURES (DESCRIBED IN REFTEL A) WOULD BE AS FOLLOWS. THE CREDITS GRANTED TO EXPORTERS FOR PRODUCTS IN ALL FOUR CATEGORIES ANNUMERATED REFTEL A WILL BE INDEXED TO THE DOLLAR-PESO EXCHANGE RATE,

IN PLACE OF INTEREST CHARGES. A ONE PERCENT FINANCE CHARGE WILL BE ASSESSED ON ALL LOANS. FOR CAPITAL GOODS, THE FOB VALUE TO BE FINANCED WILL BE 90 PERCENT FOR THE FIRST FOUR MONTHS OF 1978 AND 80 PERCENT FOR THE FOLLOWING TWO MONTHS, AS COMPARED TO THE EXISTING RATE OF 70 PERCENT. AFTER JULY, THE FINANCING PREVENTION FOR CAPITAL GOODS WILL REVERT TO THE CURRENT RATE, FOR DURABLE AND SEMI-DURABLE CONSUMER GOODS, THE PERCENTAGE FINANCED DURING THE FIRST FOUR MONTHS OF THE YEAR WILL BE 80 PERCENT FOLLOWED BY A PERCENTAGE RATE OF 70 PERCENT IN MAY AND JUNE (THE CURRENT PERCENTAGE BEING FINANCED IS 60 PERCENT OF FOB VALUE). NON-DURABLE CONSUMER GOODS AS WELL AS RAW MATERIALS AND PRIMARY PRODUCTS WILL CONTINUE TO BE FINANCED AT UNCLASSIFIED

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THE CURRENT LEVELS OF 55 PERCENT AND 40 PERCENT OF FOB VALUE RESPECTIVELY.

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INFO OCT-01 ARA-14 IO-14 ISO-00 AGRE-00 CEA-01 CIAE-00
DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15 STR-05
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6. COMMENTS: IMPORTS -- THE MEASURES REDUCING IMPORT TARIFFS WERE ENACTED FOR THE REASON SPECIFIED IN REFTEL A - TO RESTRAIN PRICE INCREASES ON THESE PRO-

DUCTS DOMESTICALLY. CONCURRENTLY WITH THE TARIFF REDUCTIONS, PRICE CONTROLS ON DOMESTIC PRODUCTION WERE ENDED. REGARDING THE PRODUCTS WHOSE IMPORT BAN WAS LIFTEL, ALL EXCEPT THE FOOD PRODUCTS HAVE TARIFFS BETWEEN 65 PERCENT AND 95 PERCENT. THUS, THE QUANTITY OF THESE PRODUCTS IMPORTED IS NOT LIKELY TO INCREASE GREATLY. THE ENACTMENT OF THE RESOLUTION RAISING THE MINIMUM TARIFF LEVELS FROM 5 PERCENT AND 10 PERCENT AND 15 PERCENT WAS DONE TO RAISE THE LEVEL OF TREASURY RECEIPTS SO AS TO KEEP THE FISCAL DEFICIT WITHIN ONE PERCENT OF GNP, AN IMPORTANT OBJECTIVE OF CURRENT GOA ECONOMIC POLICY. WHILE THE SWORN DECLARATION OF IMPORT NEED CERTIFICATES HAVE RECENTLY BEEN GRANTED FOR IMPORTS THEIR ISSUANCE COULD BE CONTROLLED IF A FOREIGN EXCHANGE CRISIS AROSE AND THE LIMITATION OF IMPORTS WAS DESIRED.

IN VIEW OF ARGENTINA'S CURRENT BALANCE OF PAYMENTS SURPLUS, THIS POSSIBILITY DOES NOT SEEM LIKELY IN THE NEAR

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FUTURE, HOWEVER.

7. COMMENTS: EXPORTS -- THE BASIC OBJECTIVE OF THE CHANGES IN THE PRE-EXPORT FINANCING REGULATIONS IS TO REDUCE THE SUBSIDY IN THE FORM OF INTEREST SPREAD TO ARGENTINE EXPORTS (EXPLAINED IN REFTEL A, PARA.8). BY TYING LOAN REPAYMENT TO THE DOLLAR-PESO EXCHANGE RATE, THE COST OF PRE-EXPORT FINANCING IS ESSENTIALLY THE RATE OF DEVALUATION OF THE PESO IN RELATION TO THE DOLLAR -- A RATE WHICH HAS BEEN INTENTIONALLY KEPT SLIGHTLY BELOW THE INTERNAL RATES OF INTEREST OFFERED IN THE LOCAL FINANCIAL MARKET. THE SPREAD IS MINIMAL, HOWEVER, VIRTUALLY ELIMINATING THE INTEREST RATE SUBSIDY. IN ORDER TO CUSHION THE BLOW TO EXPORTERS, THE CENTRAL BANK HAS INITIALLY INCREASED THE AMOUNT OF EXPORTS THAT CAN BENEFIT FROM PRE-EXPORT FINANCING, GRADUALLY REDUCING THE COVERAGE TO THE ORIGINAL LEVEL AT THE END OF A SIX-MONTH PERIOD. ALSO, BY REDUCING THE AMOUNT OF THE SUBSIDY TO EXPORTERS, THE DEMAND FOR THIS TYPE OF CREDIT IS REDUCED THEREBY LESSENING THE EXPANSIONARY MONETARY IMPACT OF THE EXPORT SUBSIDY PROGRAM, WHICH IN 1977 WAS SIZEABLE.

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